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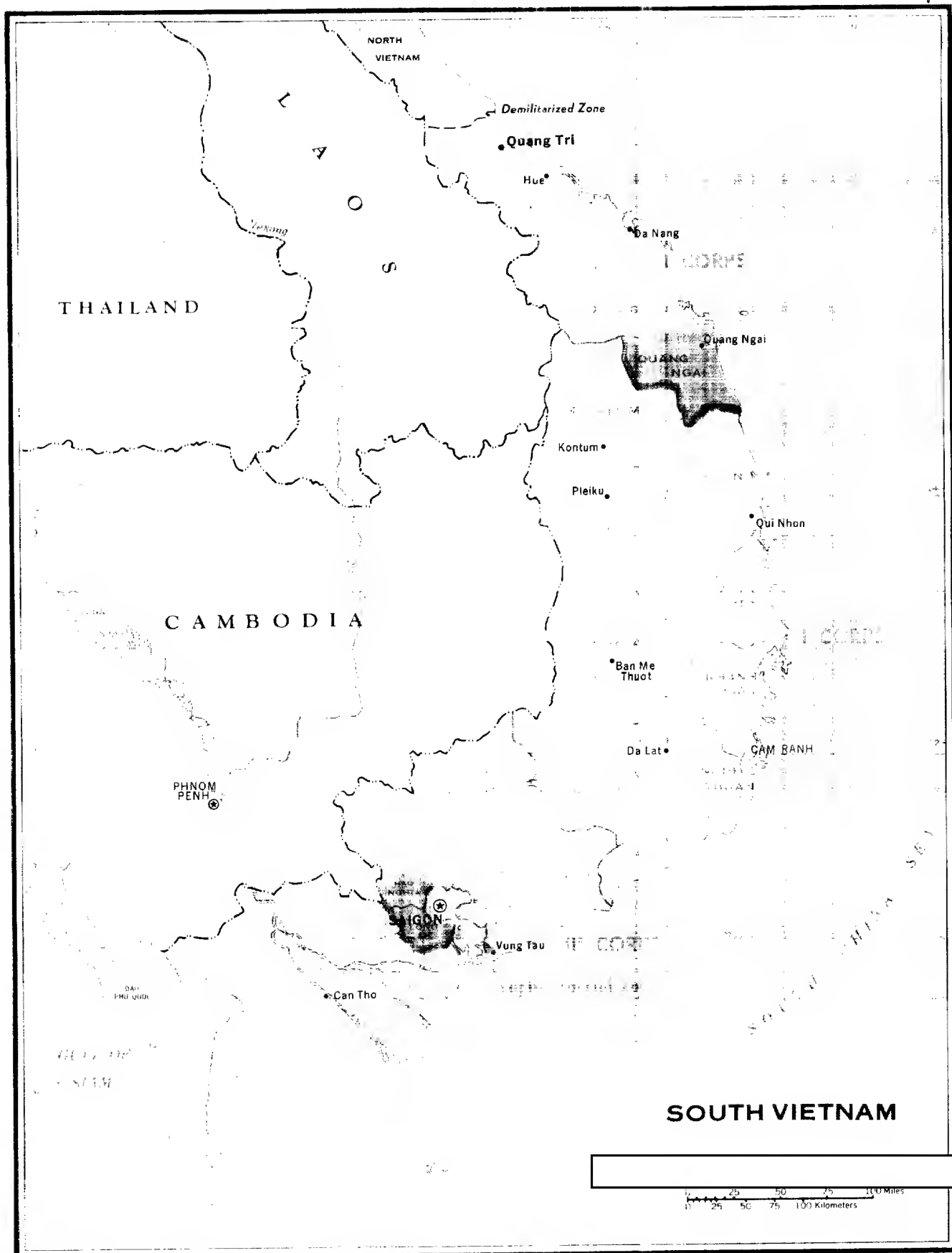
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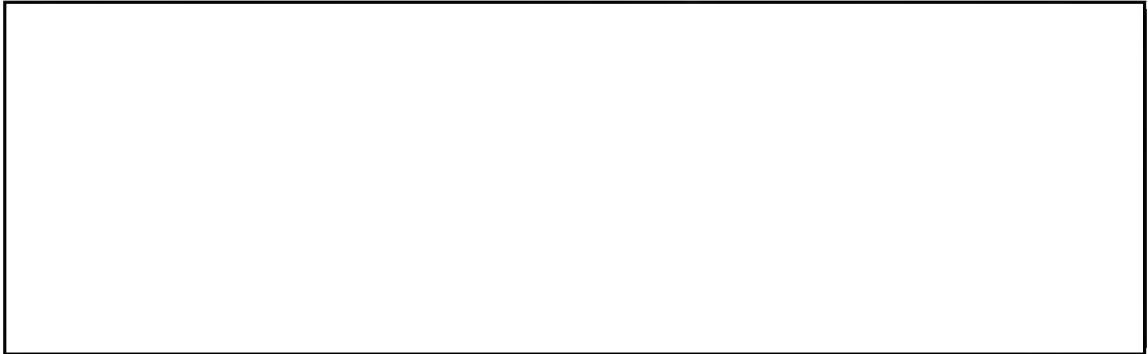
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[South Vietnam: Belief that some accommodation with the Liberation Front will have to be eventually accepted by the South Vietnamese Government is being voiced in Saigon.



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During the past few weeks, South Vietnamese students, both major Buddhist factions, a new labor organization, and several "respectable" intellectuals have urged an end to hostilities and, either explicitly or implicitly, have called for eventual negotiations with the Front. Two former cabinet ministers have also urged the government to prepare itself for reaching an agreement with southern Communists.

The Communists are clearly attempting to exploit these feelings and to encourage this trend. [redacted]

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[redacted] the Front and the Alliance of National, Democratic, and Peace Forces were highly interested in the promotion of a peace campaign in Saigon.

[redacted] a provisional government would have to be formed, possibly a coalition of Liberation Front/Alliance representatives on the one hand and a government grouping that would replace the current Thieu-Ky regime on the other. [redacted]

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[redacted] this new government grouping might be headed by General "Big" Minh, or possibly Au Truong Thanh or Truong Dinh Dzu.

(continued)

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[Sharp clashes with Communist forces occurred near Quang Tri city and south of Saigon on 26-27 June. Otherwise the relative lull in fighting continued.

In an action just east of Quang Tri city, South Vietnamese troops killed 122 of an estimated enemy battalion while suffering losses of 26 killed and 72 wounded.

In the second engagement, US forces in Long An Province fought a 28-hour battle with a composite group consisting of elements of the Viet Cong 273rd Regiment, local force battalions and possibly newly infiltrated battalion-size units. The enemy force may have been assembling for a future attack on Saigon. During the battle, 42 enemy soldiers were reported killed.

Allied sweeps continue to uncover large enemy arms caches. Caches were seized on 26 June in Quang Ngai Province and in Hau Nghia Province outside Saigon. Included in the former were 3,300 mortar rounds, 1,700 hand grenades, and large quantities of machine-gun and small-arms ammunition. In Hau Nghia, the primary find consisted of some 126 large-caliber rockets and 32 recoilless rifle rounds. The continued loss of such weapons could upset the enemy's timetable for future shellings.

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Thailand: Communist insurgents in the critical northeast area apparently are being hard pressed by army operations.

Despite some monthly variations, statistical indicators show that over-all Communist activity in the northeast has leveled off well below the highs established in early 1967. In addition, [redacted]

[redacted] the army's operations are playing havoc with insurgent operations by forcing armed bands to move out of base areas, disrupting supply sources, and undermining insurgent morale. [redacted]

[redacted] long-standing problems of leadership and recruitment are being severely aggravated by government operations.

The picture in the northeast is not entirely favorable, however. Although army operations have put strains on the Communists, the guerrilla bands are still intact, their casualties have been low, and they are still able to avoid contact with superior government forces. In addition, one unforeseen consequence of the government's military operations appears to be that the Communists are making a greater effort to remedy their organizational weakness in the villages.

The government's village security program recently received a sharp setback when the police refused to sign a US-sponsored agreement providing for the training and arming of villagers.

The government, meanwhile, still has its hands full in the northern provinces, where it continues to receive serious setbacks at the hands of tribal insurgents. In recent weeks, the guerrillas have become more aggressive, and for the first time have struck army truck convoys. Although the northeast remains the key area for the Communists, it is increasingly clear that the north has also become a major target. [redacted]

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Ryukyus: Chobyō Yara, the leftist candidate for chief executive in the elections next November, has thus far avoided endorsing positions of his radical supporters.

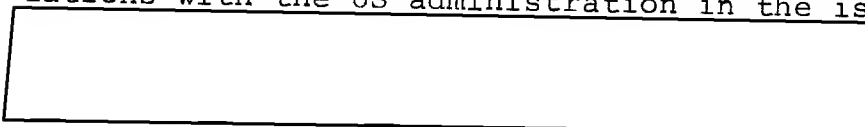
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Yara [] told the US high commissioner last month that he recognizes the difficulties of the reversion issue. Yara seemed flexible on the question of US bases. His attitude on the return of Okinawa to Japanese control contrasts markedly with opposition calls for "immediate reversion."

Yara, who is the head of the powerful Okinawa Teachers' Association, is expected to present a stiff challenge to the conservative Liberal Democratic Party candidate and may well win.

Although he has no formal political affiliation of his own, Yara was chosen in late March as the joint candidate of the Okinawan opposition, whose members range from moderate leftists to Communists. He reportedly accepted the nomination only on condition that he would not be bound by the views of any political party. Yara is a political neophyte, however, and if elected his lack of a power base might force him to depend on extremist elements less amenable than he to good working relations with the US administration in the islands.

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USSR: Foreign Minister Gromyko's offer yesterday to "exchange opinions" on the limitation of offensive and defensive strategic weapons comes after more than a year of hesitation in Moscow.

The issue has obviously been a difficult one for Soviet policy-makers to resolve. Broad considerations of military posture, economic allocations, and foreign policy contributed to the long delay in moving toward a decision to talk.

Gromyko's statement does not by itself signify that any of these problems has been definitively settled. The offer to discuss the question may be only another step--though a large one--by the Soviet leadership in the process of weighing all the factors before reaching new decisions on the future of Soviet strategic weapons systems, both offensive and defensive.

The movement in the Soviet position may have flowed from President Johnson's speech to the nation on 31 March. This, by opening up the possibility of a de-escalation of the Vietnam war, may have reduced some of the resistance to missile talks. Deputy Foreign Minister Kuznetsov's moderately affirmative remarks on the subject at the United Nations in April and May tend to support this. The belief that an end of the war might free the US to devote huge sums to more and better missile systems--which the USSR would be hard pressed to match--may also have played a large part in the decision.

Limitation on strategic arms may have considerable attraction for the Soviets at this time. Their strategic attack programs will provide them with the most powerful deterrent they ever had. In the early 1970s, however, the currently planned US strategic missile programs will begin to erode this capability. There is, besides, the question of costs. Soviet defense expenditures are expected to increase some

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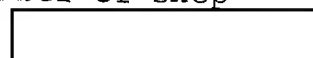
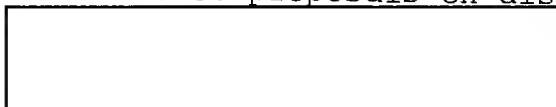
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10-15 percent by 1970-72. If Soviet-American talks make it possible for Moscow to hold expenditures to about the present levels, much-needed resources could be directed to other areas of the economy.

Nevertheless, Gromyko intimated that there were lingering misgivings about the Soviet move within the USSR. He denounced "armchair theoreticians," presumably dogmatic Communists or military leaders, who assert that disarmament is an illusion. Those people, he charged, are "taking a stand close to the forces of the most dyed-in-the-wool imperialist reaction." Gromyko himself did not elaborate the terms of a possible agreement with the US and this question may well remain to be worked out within the Soviet government.

On the other questions affecting the climate of US-Soviet relations--the Vietnam war, the Paris peace talks, Middle East tensions, Berlin and Germany--Gromyko stood pat. He noted that Soviet-American relations were "still burdened" by the war and US "aggressiveness." Throughout the speech he steered clear of any suggestion that the door to improved relations was about to be opened. His statements on disarmament were in fact put in the context of multilateral undertakings without mentioning the US by name, and the passage on missile talks came after he had repeated a number of shopworn Soviet proposals on disarmament.



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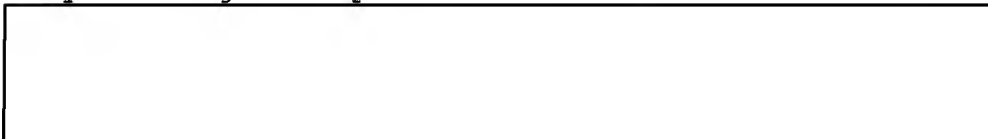
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France: Government leaders are expecting to win a majority in Sunday's runoff voting.

After winning an unprecedented 152 seats on the first round, the Gaullists and their allies, the Independent Republicans, expect in the runoff voting to pick up more than the 92 seats needed for a parliamentary majority. Premier Pompidou and other Gaullist leaders, however, continue to warn against the dangers of complacency and are urging a large turnout.

The government is concerned because voters of the left--especially Communist constituents--are well disciplined. The Gaullists fear that a high abstention rate would damage the government's chances for a large victory. Concern over abstention probably accounts for De Gaulle's decision to make a radio-TV appeal on the eve of the elections.

In about 70 percent of the undecided districts, Gaullists will face a single candidate of the left in a two-way race. In 1967 Gaullists fared badly in such contests, particularly at the hands of the Federation of the Left. Gaullist chances, however, are substantially improved by this year's election climate which is charged with fear of civil disorder. The parties of the left realize this, but claim that the government has "blackmailed" voters by raising the specter of a Communist take-over.



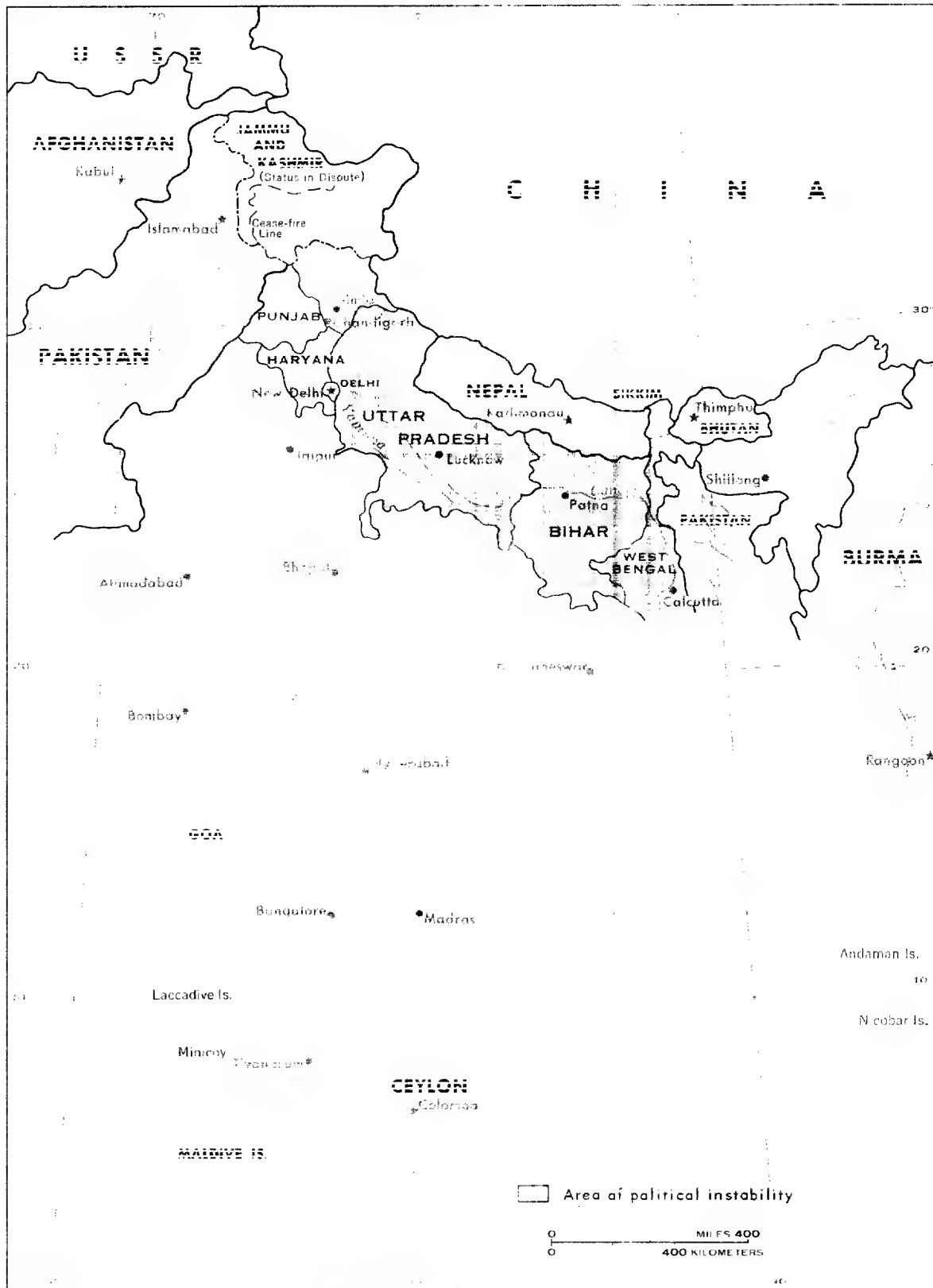
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Political Instability in Northern India



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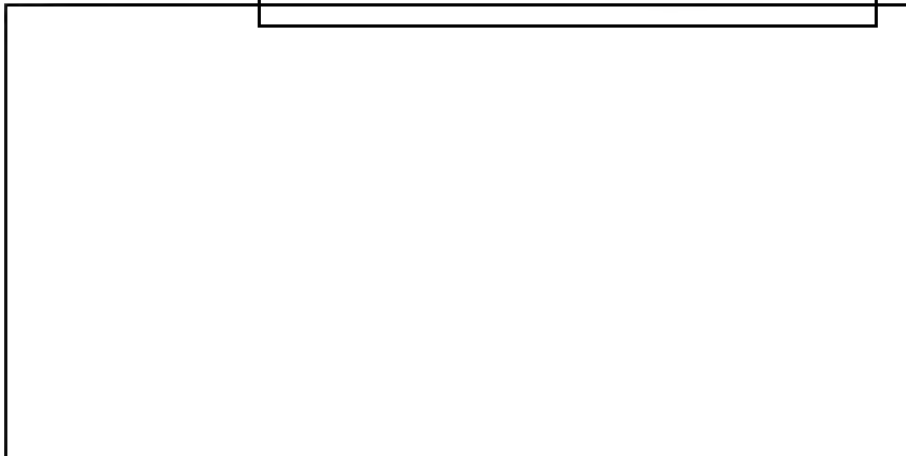
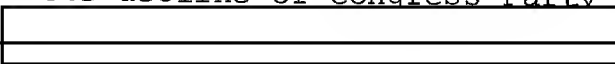
India: Recent developments in northern India point up the continuing political instability there.

The chief minister of populous and economically depressed Bihar has resigned and advised the governor to dissolve the state assembly and order new elections. His resignation reportedly was prompted by problems within his governing coalition. The coalition, only three months old, is the third to fall in Bihar since the Congress Party lost control of the government in the general elections in 1967.

Uttar Pradesh and West Bengal are already under direct rule from New Delhi. West Bengal is tentatively scheduled to go to the polls in November, and intensive political maneuvering is already under way. Elections in Uttar Pradesh are scheduled for next February. The outlook for a stable, popular government in either state is dim.

In Haryana, where Congress recently staged a comeback in elections following several months of direct rule, dangerous schisms may again be developing within the local party. The situation is even more acute in the Punjab where a minority government is involved in a constitutional imbroglio and the local Congress Party is divided over whether to continue its crucial legislative support.

The breakdown of effective parliamentary government in the northern states is the result of several factors. Foremost are the lack of party discipline, fragmentation and divisions in the many competing parties, and the decline of Congress Party power in the area.



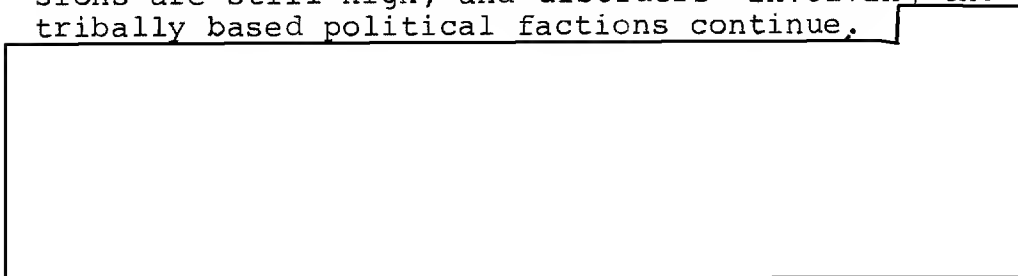
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Sierra Leone: Prime Minister Stevens is moving to crush his political opposition.

The regime has virtually destroyed any semblance of a coalition government. The leader of the southern-based Sierra Leone People's Party, a cabinet member, has been arrested. Ten other prominent supporters of the former ruling party have been charged with treason and at least 20 more are being detained.

In addition, the election of most People's Party parliamentarians, including three other cabinet members, is being contested in the courts by Stevens' northern-based party. Although these actions stem from Stevens' determination to settle old political scores and tighten his grip on power, his ultimate objective appears to be the formation of a one-party state.

Stevens' ability to consolidate his power remains questionable, however. He has not been able to establish control over the army and police, both of which harbor southern elements capable of an attempt to upset the new regime, and the security situation remains unstable. Upcountry tribal tensions are still high, and disorders involving the tribally based political factions continue.



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Argentina: Antigovernment demonstrations today by workers and students could take a violent turn.

The demonstrations marking the second anniversary of the Ongania administration are planned for Buenos Aires and several interior cities by a rebel faction of the General Confederation of Labor (CGT). Several hundred Communist-oriented students plan to join the demonstrations, but the majority of university students have shown little desire to support the rebel faction--one of three within the confederation.

The Argentine security forces expect Communist activists to use molotov cocktails and hand guns during the demonstrations. The Communist Party of Argentina has long opposed such violence, but a minority within the party has recently sought to promote more activism. It is probably these dissidents who plan to support the demonstrating workers.

The Ongania government has the capability to control outbreaks of violence. In recent student demonstrations, police cracked down quickly and effectively.

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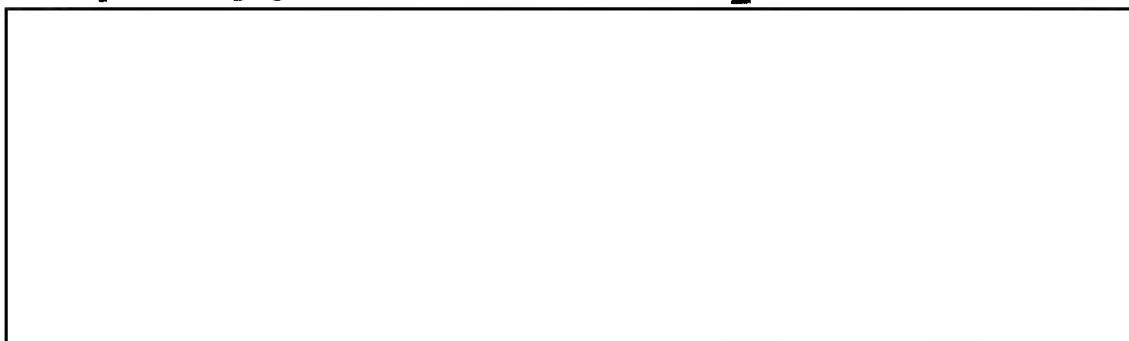
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Brazil: Student disorders have spread to northeast Brazil.

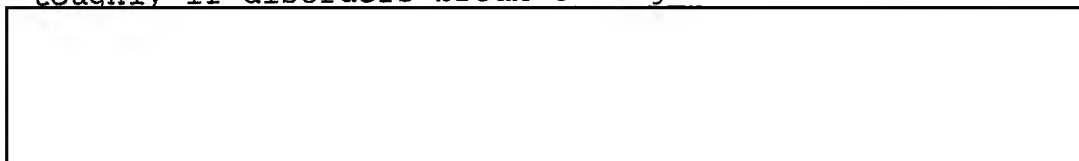
On 24 June, two students were critically wounded by police in Fortaleza--capital of the coastal state of Ceara--and student leaders there have already planned a funeral vigil at the state assembly. They are seeking statements of support from opposition deputies and prominent church officials [and according to press reports have received one from the controversial archbishop of Olinda and Recife. Students in Recife are also reportedly planning demonstrations.]

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In the south, terrorists have again attacked Second Army headquarters in Sao Paulo, this time using machine guns, but no injuries resulted. Police and military officials have been unable to identify the terrorists. Embarrassed by criticism of this failure, the authorities may react more toughly if disorders break out again in Sao Paulo.

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Czechoslovakia - Warsaw Pact: Czechoslovak news media are emphasizing that the Pact exercise will terminate at the end of the week and that all foreign units will leave the country at that time. Some Soviet units and jet fighters are located northwest of Prague, and others are concentrated in north-central Czechoslovakia. Polish and Hungarian army elements are also in the country. Prague's daily announcements are intended to counter any popular interpretation of the exercise as a Soviet attempt to interfere in Czechoslovakia's affairs.

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Egypt: The first demonstrations in Egypt since antiregime protests last February reportedly occurred yesterday in Alexandria.

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some 1,500 textile workers took to the streets after their candidate in the Arab Socialist Union elections on 25 June was listed as having lost his bid for a seat on the local committee. The workers agreed to return to their jobs after the authorities promised to "investigate" their complaint.

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Congo (Kinshasa): Congolese officials are determined to maintain order over the independence day holiday this weekend. Tension usually increases at this time and the masses view the 30 June holiday with some trepidation. Rumors are rampant--including stories of new rebel offensives. For example, a group of Katangans in Angola is said to be ready for new incursions into western Katanga. There is probably little substance to most of the rumors, but they add to the general apprehension. Local officials have kept cool so far, but the army has increased its troop strength at key cities along the Katangan-Angolan border.



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Peru: Although initial public reaction has been favorable, officials are expecting civil disturbances as a result of the sweeping financial stabilization program announced by the government on 25 June. The officials fear that the Communist-dominated chauffeurs' union will be joined by students in protesting against higher taxes, especially a large increase in gasoline levies, and that these demonstrations might develop into large-scale disorders. There is also a possibility that underpaid enlisted men in the national police and the army might sympathize with the demonstrators, but the national police command expects to be able to deal with any disturbances.



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NATIONAL INTELLIGENCE ESTIMATE

The United States Intelligence Board on 27 June 1968 approved the following national intelligence estimate:

SNIE 85-68, "Cuba: Castro's Problems and Prospects over the Next Year or Two"

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